

Favourite Nephew/Niece Relief

Capital Acquisitions Tax Manual Part 10

This document should be read in conjunction with Schedule 2, Part 1, paragraph 7
CATCA 2003.

Document last updated March 2023.

10.1 Introduction

Favourite Nephew/Niece Relief is provided for by Schedule 2, Part 1, paragraph 7 of the Capital Acquisitions Tax Consolidation Act (CATCA) 2003. It applies to gifts or inheritances of business assets where the beneficiary is the nephew or niece of the disponer and has worked substantially on a full-time basis for the 'relevant period' in carrying on, or assisting in carrying on, the trade, business or profession of the disponer. The 'relevant period' is:

- the 5-year period prior to the date of the gift or inheritance, or
- where the interest in the property (including shares) is limited to the disponer, the 5-year period ending when that interest comes to an end.¹

For the purposes of the relief, a nephew or niece is defined as a child of the disponer's brother or sister, or a child of the civil partner of the disponer's brother or sister.

The relief applies to gifts or inheritances of business assets only. A nephew or niece who qualifies for the relief is entitled to the Group A tax-free threshold for the purposes of computing the tax payable on those business assets.

Where a gift or inheritance comprises both business and non-business assets, any debts, liabilities etc. must be apportioned between the business and non-business assets. The Group B threshold will apply to the non-business assets.

The relief does not apply where the gift or inheritance is taken by the nephew or niece under an appointment from a discretionary trust set up by the disponer.

10.2 Conditions for the relief

To qualify for the relief, the nephew or niece must have worked substantially on a full-time basis for the relevant period:

- for the disponer in carrying on, or assisting in carrying on, the business, trade or profession of the disponer and the gift or inheritance consists of property which was used in connection with that business, trade or profession,
- or
- in a private trading company controlled by the disponer, in carrying on or assisting in carrying on the trade, business or profession of the company and the benefit consists of shares in that company.

Where the benefit consists of shares in a private trading company, the company must have been controlled by the disponer prior to the benefit and the disponer must have been a director of the company. 'Private company controlled by the disponer' means a company controlled by the disponer, nominees of the disponer or trustees of a settlement made by the disponer. 'Control' for the purpose of the relief is construed in accordance with section 27(4)(b) CATCA 2003.

¹ This would apply where the disponer settles an interest on himself or herself (e.g. for his/her life), such that the relevant period is the 5-year period preceding the ending of the disponer's interest.

For the nephew or niece to be treated as working substantially on a full-time basis in the business, he or she must work:

- (a) more than 24 hours per week at the place where the business, trade or profession is carried on,
or
- (b) more than 15 hours per week at the place where the business, trade or profession is carried on exclusively by the disponer, any spouse or civil partner of the disponer and the nephew or niece.

10.3 Examples

1. James inherits his uncle Michael's estate. The inheritance comprises:
 - (a) business assets - a pub with a market value of €500,000 and stock-in-trade valued at €30,000,
and
 - (b) non-business assets valued at €150,000.

James had worked substantially on a full-time basis in the business for 5 years prior to Michael's death and qualifies for 'favourite nephew' relief in respect of the business assets. He is therefore entitled to the Group A threshold for the business assets valued at €530,000. He is entitled to the Group B threshold in respect of the non-business assets valued at €150,000.

2. Michael settles his business on trust for himself for life with remainder to his nephew James. The 'relevant period' is 5 years ending on the termination of Michael's life interest. Therefore, provided James had worked for Michael for the 5-year period ending on Michael's death, he would qualify for the relief.
3. Michael dies leaving his business to his wife Sarah for her life with remainder to his nephew James. James had been working in the business with Michael on a full-time basis for a period of 7 years prior to Michael's death. As the 'relevant period' is 5 years ending on the date of the inheritance, the relief will apply. There is no requirement for James to have worked for Sarah.

10.4 How to claim the relief

Where Favourite Nephew/Niece Relief is claimed, an IT38 return must be filed electronically through [MyAccount](#) or the [Revenue Online Service](#) (ROS).